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UNCLAS SECTION 01 OF 02 ASHGABAT 000922

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SUBJECT: FOREIGN FIRMS PUMP UP THE VOLUME IN TURKMENISTAN'S OIL SECTOR

REF: ASHGABAT 905

Summary

¶1. (SBU) Crude oil production figures among foreign oil firms operating off of Turkmenistan's Caspian Sea coast and onshore in hydrocarbon-rich Balkan province exceed 85,000 barrels a day. The large Petronas support base in Turkmenbashy outfits a fleet of 14 support ships, massive amounts of drill pipe and a non-stop sludge reprocessing facility. The Turkmenbashy refinery, operating off of domestic production purchased at roughly two dollars a metric ton, exports more than 60% of its refined product to generate several hundred millions of dollars in estimated profits for the Government of Turkmenistan. End summary.

Show Me the Oil (and Money)

¶2. (U) During a recent trip to Turkmenistan's western Balkan Welayat (province), which borders the Caspian Sea, embassy personnel discussed oil and gas issues with Turkmenbashy's mayor, the head of the Turkmenbashy refinery, subcontractors of the Malaysian firm Petronas and personnel from the U.K.'s Burren Resources. Specific feedback regarding natural gas issues appears reftel.

¶3. (SBU) Foreign oil firms operating in Turkmenistan report increased daily crude oil output. A Petronas subcontractor told emboff that Petronas production from offshore wells in the Caspian Sea is currently 45,000 barrels per day. Latest data from Dragon Oil's operations around the Celeken (Hazar) peninsula indicate a daily production figure of approximately 20,000 barrels. Burren Resources Operations Manager Ron Gartner advised emboff that his company's production is up to 20,000 barrels per day as well.

¶4. (SBU) The Petronas base camp in the port city of Turkmenbashy is expanding to accommodate Petronas activity in the Caspian Sea. On a tour of the base camp, emboff explored the support facilities and viewed support ships dedicated to servicing Petronas facilities offshore. According to a Petronas subcontractor, the fleet of support ships recently increased from 8 to the present number of 14. (Note: At the time of emboff's visit on August 20, Petronas was beginning preparations to reposition its offshore drilling rig to a new site.) Amidst large stockpiles of piping for drilling operations, a sludge reprocessing facility, currently operating full-time at a rate of two-three tons per hour, towers over the base camp facility.

¶5. (SBU) Gartner proudly advertised the profitable nature of Burren's operations in their fields 30 minutes southwest of

Balkanabat. Excluding investment costs, Gartner estimated his operating costs to be less than \$10 per barrel. Burren shoulders the burden of financing all infrastructure requirements in accordance with its existing production sharing agreement with the Government of Turkmenistan. Gartner added that his operations have benefited from consistently reasonable and level-headed interaction with Government of Turkmenistan officials.

¶6. (SBU) According to Gartner, Burren is in its final stages of exploration and expects to maintain current levels of production for the next 15 years. A seismic exploration study completed three years ago revealed no new reserves. Burren's current production is handed over to British Petroleum representatives in the southern Turkmenistan port of Ekerem.

Refinery Profit Margins Profitable

¶7. (SBU) Phase two of the Turkmenbashy refinery's \$2 billion expansion project is nearing completion with refining capacity approaching nine million tons. According to Refinery Director Tachberdy Tagiev, only domestically-sourced crude oil, purchased from state-owned Turkmennebit at 48,000 manat (slightly more than \$2/ton using the unofficial exchange rate), is refined in Turkmenbashy. While Tagiev refused to identify his operating costs, he revealed that the refinery has achieved an 85% recovery rate from crude oil input and exports, mostly via tanker, over 60% of overall production. With low input and operating costs, and even allowing for reduced premiums for refined product "trapped" in the Caspian Sea basin, market-rate exports from the Turkmenbashy refinery should at least generate several hundreds of millions of dollars in profits for the

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government.

Comment

¶8. (SBU) Embassy is providing this crude oil production and related information for further analysis in Washington. We plan to explore septel the reasons for the absurdly uncompetitive deal that Turkmennebit has with the Turkmenbashy refinery and the impact of these low revenues for crude oil on Turkmennebit's ability to finance exploration and infrastructure activities. End Comment.

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